

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7452

BILL NUMBER: HB 1523

NOTE PREPARED: Jan 12, 2009

BILL AMENDED:

SUBJECT: School Textbook Funding.

FIRST AUTHOR: Rep. Goodin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill expands the definition of "textbook" to include certain materials used in student instruction.

The bill transfers and distributes \$70,000,000 annually from the Administrative Trust Fund of the State Lottery to the State Textbook Grant Fund.

The bill requires school corporations to establish a textbook fund and to use money from the fund to purchase textbooks. It appropriates an annual state textbook grant to each school corporation equal to: (1) \$83; multiplied by (2) the average daily membership of the school corporation. The bill requires the deposit of grant funds in a school corporation's textbook fund. It also limits a student textbook rental fee to: (1) 25% of the total purchase price of the textbooks; minus (2) \$83. The bill also makes conforming changes.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Summary:* The following table illustrates the estimated cost to the state to cover the textbook grants provided by the bill.

Table A. State Cost To Provide Textbook Grants				
FY	Textbook Grants	Textbook Reimbursement	Lottery Transfer	Net General Fund Impact
2010	\$83.1 M	(\$30 M)	(\$70 M)	(\$16.9 M)
2011	\$83.2 M	(\$30 M)	(\$70 M)	(\$16.8 M)
2012	\$83.3 M	(\$30 M)	(\$70 M)	(\$16.7 M)

Lottery Transfer- The bill would transfer \$17.5 M in January, April, July, and October of every year (\$70 M annually) from the state lottery Administrative Trust Fund to the state Textbook Grant Fund (TGF). The transfers would begin in July 2009. The quarterly transfer to the TGF would be made subsequent to transfers required under current statute to the Teachers' Retirement Fund and the Pension Relief Fund. The transfers would not cover the entire cost of the grants as shown above. The proposed transfer of lottery funds would have a secondary impact by creating a shift of \$70 M annually in Riverboat Wagering Tax revenue from the state General Fund to the Build Indiana Fund (BIF). This would occur as the reduction of surplus lottery revenue distributed to the BIF would be replaced (under the current funding formula for the BIF) with Riverboat Wagering Tax revenue. The net General Fund impact would be to reduce expenditures by \$16.9 M in FY 2010, \$16.8 M in FY 2011, and \$16.7 M in FY 2012.

Textbook Grant- School corporations would be eligible for a state grant per ADM of \$83. The projected costs of these grants are approximately \$83.1 M for FY 2010, \$83.2 M in FY 2011, and \$83.3 M in FY 2012. The transfer from the state lottery would amount to \$70 M per state fiscal year. The lottery transfer would not cover the entire amount of the textbook grants. Ultimately, the source of funds and resources required to provide the grants not covered by the lottery transfers would depend upon legislative and administrative actions.

Textbook Rental Program- The bill would reduce rental fees charged by schools for textbooks. Families with children qualifying for free and reduced lunch would require less reimbursement from state funds with lower rental fees. The reduction in the state reimbursement of textbooks, assuming the current level of funding, could be as much as \$30 M.

Background Information- Textbook Reimbursement: The appropriation for textbook reimbursement for FY 2009 is \$39 M. The state was able to reimburse about 97.6% of the allowable textbook reimbursement in FY 2009.

Resources Available to BIF: The Build Indiana Fund receives funds from two sources: (1) surplus Lottery revenue and (2) revenues from gaming taxes and pari-mutuel taxes. Under current statute, surplus Lottery revenue in the Lottery Commission's Administrative Trust Fund is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, the remaining surplus Lottery revenue is distributed to BIF.

Current statute also requires distribution of revenue from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee to BIF. The total annual distribution to BIF from Lottery, gaming, and pari-mutuel sources is effectively capped at \$250 M. This is because the annual distribution of Riverboat Wagering Tax revenue is limited to an amount equal to \$250 M minus the sum of the surplus Lottery revenue and revenue

from other gaming and pari-mutuel taxes distributed to BIF during that fiscal year. The required amount of Riverboat Wagering Tax is transferred to BIF from the Property Tax Replacement Fund (PTRF) at the end of the fiscal year. (NOTE: The PTRF will be eliminated on January 1, 2009, so the transfer of Wagering Tax to BIF will be made from the state General Fund.)

Distributions from BIF: Under current statute, \$236.2 M annually must be transferred from BIF to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. Money remaining in BIF after the MVETRA transfer is available for state and local capital projects. It is estimated that \$45.7 M could potentially be available for state and local capital projects in FY 2009, assuming surplus Lottery revenue is equal to the three-year average performance from FY 2006 to FY 2008. P. L. 234-2007 (the biennial budget bill) appropriated approximately \$20.9 M from BIF during the 2007-2009 biennium for specific state and local projects. Approximately half of this appropriation amount was allotted in FY 2008. Allotment of the remainder in FY 2009 will result in a remaining balance of about \$35.3 M. The table below contains actual BIF revenue and spending totals for FY 2006 to FY 2008, with a projection for FY 2009.

Surplus Lottery and Gaming Revenue & Distributions (Millions)*				
Revenues & Distributions	FY 2006 (Actual)	FY 2007 (Actual)	FY 2008 (Actual)	FY 2009 (Projected)
Beginning Balance in BIF**	10.5	19.6	28.6	31.9
Surplus Lottery Revenue in Adm. Trust Fund	209.9	210.9	224.0	214.9
TRF Transfer	(30.0)	(30.0)	(30.0)	(30.0)
PRF Transfer	(30.0)	(30.0)	(30.0)	(30.0)
Surplus Lottery Revenue to BIF	149.9	150.9	164.0	154.9
Surplus Gaming Revenue to BIF	100.1	99.1	86.0	95.1
Interest	0.0	0.0	0.0	0.0
Total Resources in BIF	260.5	269.6	278.6	281.9
MVETRA Transfer	(236.2)	(236.2)	(236.2)	(236.2)
Total Transfers	(236.2)	(236.2)	(236.2)	(236.2)
Amount Available for State & Local Capital Projects	24.3	33.4	42.4	45.7
Amount Allotted to State & Local Capital Projects***	4.8	4.8	10.4	
*Updated 10/5/08. FY 2009 projected lottery surplus is based on the three-year average from FY 2006 to FY 2008. **FY 2006 and FY 2008 amounts available and allotted for capital projects do not sum to the FY 2007 and FY 2009 beginning balances due to rounding. ***Actual totals for FY 2006-FY 2008.				

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of Local Revenues*.

Explanation of Local Revenues: *Textbook Grant*- School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the federal Free and Reduced Lunch Program, and financial assistance from township trustees (Poor Relief). As proposed by this bill, school corporations would be eligible to use the state grant of \$83 per ADM in addition to the above sources. In FY 2008, schools collected revenue of about \$62 M in textbook rental fees from students and about \$39 M from the state for textbook reimbursement.

Schools spend between \$83 M - \$110 M from the Textbook Rental Fund annually.

State Agencies Affected: State Lottery Commission; Department of Education; Treasurer of State.

Local Agencies Affected: Schools.

Information Sources: Department of Education databases; Randhir Jha, State Budget Agency, (317) 232-2971; Auditor of State Revenue Trial Balance..

Fiscal Analyst: Chuck Mayfield, 317-232-4825; Jim Landers, 317-232-9869.